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**FISCAL IMPACT STATEMENT**

**LS 7550**

**BILL NUMBER: HB 1755**

**NOTE PREPARED: Jan 13, 2003**

**BILL AMENDED:**

**SUBJECT:** Municipal food and beverage tax.

**FIRST AUTHOR:** Rep. Klinker

**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED: X GENERAL  
DEDICATED  
FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** The bill provides that a municipality that has not previously imposed a Food and Beverage Tax may impose a Municipal Food and Beverage Tax at a rate of up to 1%. The bill provides that the municipality may use the revenue from the Municipal Food and Beverage Tax to: (1) reduce a property tax levy; (2) provide property tax relief; (3) pay debt service or lease rentals; (4) pay capital project costs; (5) provide operating revenue; (6) pay municipal pension liabilities; or (7) pay for another municipal purpose.

**Effective Date:** Upon passage.

**Explanation of State Expenditures:** *Summary:* The Department of State Revenue administers, audits, and collects local food and beverage taxes. In 2001, the Department administered, audited, and collected the Food and Beverage Tax at approximately \$0.51 per \$100 of revenue.

**Explanation of State Revenues:** *Summary:* Under the bill, the Department would be entitled to retain a monthly administrative fee of 0.1% of the total municipal Food and Beverage tax revenue collected monthly. The fee would fund the administrative costs associated with the bill.

**Explanation of Local Expenditures:** *Summary:* The bill gives the fiscal body of a municipality that has not already adopted the 1% Food and Beverage Tax, the option to adopt it by ordinance. (Six counties and five municipalities have already adopted the Food and Beverage Tax.) Upon adoption, the fiscal body would be required to send a certified copy of the ordinance to the Department of State Revenue.

If the Food and Beverage Tax is imposed, the municipality adopting the tax will receive monthly payments of the Food and Beverage Tax from the Treasurer of State on warrants issued by the Auditor of State.

Municipal fiscal officers would be required to establish a Food and Beverage Tax Receipts Fund for revenue received from the Treasurer of State.

**Explanation of Local Revenues:** *Summary:* If all municipalities were to adopt the Food and Beverage Tax at 1% (under the bill, a municipality may adopt the rate at 0.25%, 0.5%, 0.75%, or 1%) on or about the effective date of the bill, revenue could begin to be received by the municipality by approximately August of 2003. The estimated revenue would be \$30.3 M in CY 2003 and \$74.7 M in CY 2004. Currently Brownsburg, Mooresville, Nashville, Plainfield, and Shipshewana have adopted the Food and Beverage Tax. In CY 2004, these units are projected to collect \$1.5 M in Food and Beverage Tax revenue. This amount subtracted from the CY 2004 estimate above would lower the estimated revenue to cities and towns to \$73.2 M in CY 2004.

*Background:* Estimation methodology of Food and Beverage Tax takes into account the following factors: total food and beverage sales in the county in CY 1997 adjusted to reflect sales of prepared foods (such as those sold at a grocery deli) which would be subject to the proposed tax but are not included in the U.S. Census data. In order to account for these prepared foods, an additional 10% adjustment is added to establish a CY 1997 baseline for the county. Given recent economic performance, the baseline is grown using state Sales Tax growth rates for FY 2001 (1%) and FY 2002 (2%) to reach a base for FY 2002. Projected years from FY 2003-2005 were grown using the state Sales Tax estimated growth rates from the December 18, 2002 state revenue forecast. These growth rates include the effects of raising the state sales tax rate from 5% to 6% under HEA 1001(ss)-2002. Removal of the effects of the increased sales tax rate yields projected growth rates of 4.2% in FY 2003, 4.3% in FY 2004, and 4.9% in FY 2005.

On an aggregate level, all municipalities in Indiana are generally assumed to account for 95% of total food and beverage sales. This percentage is applied to the baseline for all counties, including those counties that currently impose the Food and Beverage Tax.

(NOTE: The CY 2004 estimates assume all cities and towns would adopt the tax at 1% by May 1, 2003. Actual revenue impact per calendar year would depend on local action.)

**State Agencies Affected:** Department of State Revenue.

**Local Agencies Affected:** Municipalities adopting the 1% Food and Beverage Tax under the bill.

**Information Sources:** Department of State Revenue; U.S. Census Bureau.

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